

From: Pirko, John A. [mailto:JPirko@LECLAIRRYAN.com]  
Sent: Friday, April 04, 2003 12:09 PM  
To: Susan Larsen  
Cc: 'Omberg, Rob'; 'Walker, Dan'; 'Kimball, James'  
Subject: Stranded Costs

Below is the Cooperatives' response to your e-mail offering definitions of the terms "stranded costs" and "just and reasonable net stranded costs." Sorry we could not get the response to you by COB yesterday.

Have a good weekend. See you Monday morning.

1. The Cooperatives do not support the definitions of "stranded costs" and "just and reasonable net stranded costs" proposed by Commission Staff in Susan Larsen's April 2, 2003, e-mail message. The Cooperatives oppose these definitions because they are not consistent with the provisions of the Restructuring Act. The only specific elements provided by the Act are how stranded costs may be recovered (capped rates or wires charges) and how wires charges are determined. In order to accurately derive definitions for these terms from the Act and keep the definitions consistent with the provisions of the Act, the means of quantifying such costs and the method of recovery should be considered essential elements of the definitions.

Based on the work group discussions and prior statements made by the Cooperatives, the Cooperatives offer the following definitions:

Stranded costs are an incumbent utility's lost electric generation-related revenues recoverable under traditional cost-of-service regulation but not recoverable in a competitive electric generation market, measured by the difference between the utility's generation-related costs while regulated (subject to fuel adjustments) and the market-based generation-related costs determined annually by the Commission, and recovered through capped rates or wires charges.

Just and reasonable net stranded costs are an incumbent utility's net loss in electric generation-related revenues recoverable under traditional cost-of-service regulation but not recoverable in a competitive electric generation market, measured by the net difference between the utility's reasonably and prudently incurred generation-related costs while regulated (subject to fuel adjustments), and the market-based generation-related costs determined annually by the Commission, and recovered through capped rates or wires charges.

These definitions are appropriate because they quantify the stranded costs and describe the method for their recovery.

2. Regarding the components of stranded costs, in their Response to the Commission Inquiries the Cooperatives listed:

(1) net generation plant investments and costs attributable to investment in generation plant and related facilities (including transmission interconnection costs);

(2) projected nuclear plant decommissioning costs, spent nuclear fuel disposal costs and projected retirement costs of non-nuclear plants;

(3) costs attributable to purchase power contracts;

(4) regulatory assets (deferred expenses authorized by a regulatory agency); and

(5) other similar or related costs determined by the Commission.

Just and reasonable net stranded costs would include the net amount of any such reasonably and prudently incurred stranded costs.

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